

**CITY OF PRESTON
PRESTON, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2014**

**CITY OF PRESTON
PRESTON, IOWA**

TABLE OF CONTENTS

		<u>Page No.</u>
Officials		1
Independent Auditor's Report		2-4
Management's Discussion and Analysis		5-10
Basic Financial Statements:	Exhibit	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	11-12
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	13
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	C	14
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	15-16
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	E	17
Notes to Financial Statements		18-26
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		27-28
Notes to Other Information - Budgetary Reporting		29
Supplementary Information:	Schedule	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	30
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Internal Service Funds	2	31
Schedule of Indebtedness	3	32
Bond and Note Maturities	4	33
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5	34
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		35-37
Schedule of Findings		38-40

**CITY OF PRESTON
PRESTON, IOWA**

OFFICIALS

Name	Title	Term Expires
(Before January 2014)		
Chad Gruver	Mayor	January 2016
Richard Rossmann	Mayor Pro Tem/Council Member	January 2016
Ken Larson	Council Member	January 2016
Curt Gruver	Council Member	January 2014
Dave Jargo	Council Member	January 2014
Curtis Kilburg	Council Member	January 2014
Brenda Tebbe	City Clerk/Treasurer	Indefinite
Melissa Burken-Mommsen	City Attorney	Indefinite
(After January 2014)		
Chad Gruver	Mayor	January 2016
Richard Rossmann	Mayor Pro Tem/Council Member	January 2016
Ken Larson	Council Member	January 2016
Tom Budde	Council Member	January 2018
Pansy Oldag	Council Member	January 2018
Jason Thomson	Council Member	January 2018
Brenda Tebbe	City Clerk/Treasurer	Indefinite
Melissa Burken-Mommsen	City Attorney	Indefinite

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. McCARTHY, CPA
E.A. SCHILLING, CPA
S.H. ROBERTS, CPA
J.L. WOOLF, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Preston as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Discretely Presented Component Unit

The financial statements do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data of the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include financial data for its component unit. The City has not issued such reporting entity financial statements. The assets, liabilities, net position, revenues, and expenses of the legally separate component unit is unknown, thus the amount by which this departure would affect the financial statements taken as a whole is not reasonably determinable.

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of significance of the matter discussed in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to previously do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the discretely presented component unit of the City of Preston, as of June 30, 2014, or the changes in cash basis financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Preston as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Preston's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2013 (none of which are presented herein) and expressed unqualified/unmodified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting with the exception of the six years ended June 30, 2013. For the six years ended June 30, 2013, we expressed an unqualified/unmodified opinion on the financial statements of the various opinion units of the primary government and we expressed an adverse opinion on the discretely presented component unit due to the omission of the financial data for the City's legally separate component unit. The supplementary information included in Schedules 1-5 is presented for purposes of additional

analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 10 and 27 through 29 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 5, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.

Dubuque, Iowa

February 5, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Preston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 2.6% or \$15,308 from fiscal 2013 to fiscal 2014. The receipts included \$249,217 in property tax, \$79,794 in local option tax, and \$101,052 in road use tax funds.
- Disbursements increased 4.0% or \$111,614 in fiscal 2014 from fiscal 2013. Gas and garbage disbursements increased \$188,815 and \$122,565, respectively, while electric disbursements decreased \$434,902.
- The City's total cash basis net position increased 20.9% or \$235,447 from June 30, 2013 to June 30, 2014. Of this amount, the net position of the governmental activities increased \$116,317. The net position of the business type activities increased \$119,130.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds, internal service funds, and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax, state grants, and payments in lieu of taxes finance most of these activities.
- Business type activities include water, sewer, electric, gas, garbage, and customer deposits. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of the funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund; 2) the Special Revenue Funds, such as Road Use Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains six Enterprise Funds to provide separate information for the water, sewer, electric, gas, garbage, and customer deposits funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$333,527 to \$449,844. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 48,889	\$ 39,883
Operating grants and contributions	171,806	159,196
Capital grants and contributions	---	5,000
General receipts:		
Property tax	249,217	227,268
Other city tax	84,594	82,236
Unrestricted investment earnings	13,262	2,962
Other general receipts	9,614	30,828
Debt proceeds	---	45,317
Total receipts	\$ 577,382	\$ 592,690
Disbursements:		
Public safety	\$ 216,780	\$ 222,535
Public works	120,565	121,424
Culture and recreation	99,130	100,641
Community and economic development	12,399	9,316
General government	82,822	76,594
Debt service	29,369	21,633
Total disbursements	\$ 561,065	\$ 552,143
Change in cash basis net position before transfers	\$ 16,317	\$ 40,547
Transfers, net	100,000	120,000
Change in cash basis net position	\$ 116,317	\$ 160,547
Cash basis net position beginning of year	333,527	172,980
Cash basis net position end of year	\$ 449,844	\$ 333,527

Total receipts for the City's governmental activities decreased by 2.6% or \$15,308. The total cost of all programs and services increased \$8,922 or 1.6%. The decrease in receipts is due loan proceeds received in fiscal year 2013. The cost of programs and services remained similar to the prior year.

The cost of all governmental activities this year was \$561,065 compared to \$552,143 last year. As shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was \$340,370 because some of the cost was paid by those directly benefited from the programs \$48,889 or by other governments and organizations that subsidized certain programs with grants and contributions \$171,806. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for services increased from \$204,079 in fiscal year 2013 to \$220,695 in fiscal year 2014. The City paid for the remaining "public benefit" portion of governmental activities with \$356,687 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Position of Business Type Activities

	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 207,123	\$ 206,554
Electric	1,143,415	1,165,179
Gas	593,714	388,993
Sewer	191,596	192,339
Garbage	129,564	125,466
Customer deposits	6,662	3,836
General receipts:		
Unrestricted interest on investments	4,904	5,728
Miscellaneous	27,254	50,020
Sale of assets	7,500	---
Total receipts	\$2,311,732	\$2,138,115
Disbursements:		
Water	\$ 175,708	\$ 162,410
Electric	990,796	1,425,698
Gas	542,024	353,209
Sewer	122,765	130,928
Garbage	259,233	136,668
Customer deposits	2,076	4,225
Total disbursements	\$2,092,602	\$2,213,138
Change in cash basis net positions before transfers	\$ 219,130	\$ (75,023)
Transfer, net	(100,000)	(120,000)
Change in cash basis net position	\$ 119,130	\$ (195,023)
Cash basis net position beginning of year	792,225	987,248
Cash basis net position end of year	<u>\$ 911,355</u>	<u>\$ 792,225</u>

Total business type activities disbursements for the fiscal year were \$2,092,602 compared to \$2,213,138 last year. The decrease in electric disbursements was due primarily to completion of an electric distribution lines project in fiscal year 2013. The increase in gas disbursements is due to an increase in the cost of natural gas. Garbage disbursements increased due to the purchase of a garbage truck.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Preston completed the year, its governmental funds reported a combined fund balance of \$446,286, an increase of \$116,317 above last year's total. The following are the reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased from \$92,962 to \$110,652. The change of \$17,690 is due primarily to an increase in property tax receipts.
- The Road Use Tax Fund cash balance increased from \$309,386 to \$410,438 as the City is accumulating funds for future projects.
- The Library Foundation Fund cash balance increased \$11,690 due to interest.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$30,398 as the City is accumulating funds for future repairs and improvements.
- The Electric Fund cash balance increased \$112,815 due to a decrease in expenses.
- The Gas Fund cash balance increased \$24,961 as the City is accumulating funds for future repairs and improvements.
- The Sewer Fund cash balance increased \$67,651 as the City is accumulating funds for future repairs and improvements.
- The Garbage Fund cash balance decreased \$130,838 due to the purchase of a garbage truck.

BUDGETARY HIGHLIGHTS

The City amended its budget only once during the fiscal year. It was amended and approved on May 19, 2014, to provide for additional spending that wasn't budgeted such as the purchase of a new police car and utility meters. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$179,881 less than budgeted. This was primarily due to applying for a grant that was not awarded to the City.

The City exceeded the amounts budgeted in the public safety, culture and recreation, general government, and debt service functions for the year ended June 30, 2014 due to unanticipated costs in those departments.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$931,823 in bonds and other long-term debt, compared to \$1,071,231 last year, as shown below.

Outstanding Debt at Year End		
	June 30,	
	2014	2013
General obligation notes	\$ 97,823	\$ 124,003
Revenue note	759,000	852,228
Other obligations	75,000	95,000
Total	\$ 931,823	\$ 1,071,231

Debt decreased as a result of principal payments made on existing debt. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$97,823 is significantly below its constitutional debt limit of \$2.4 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2015. Amount available for appropriation in the operating budget will be \$2,727,413, a decrease of 11% from the final 2014 budget. Intergovernmental receipts are expected to decrease approximately \$86,000.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$110,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Tebbe, City Clerk/Treasurer, P.O. Box 37, Preston, Iowa 52069.

**BASIC
FINANCIAL
STATEMENTS**

EXHIBIT "A"

**CITY OF PRESTON
PRESTON, IOWA**

**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Public safety	\$ 216,780	\$ 40,719	\$ 49,950	\$ ---	\$ (126,111)	\$ ---	\$ (126,111)
Public works	120,565	254	101,052	---	(19,259)	---	(19,259)
Culture and recreation	99,130	2,306	20,804	---	(76,020)	---	(76,020)
Community and economic development	12,399	---	---	---	(12,399)	---	(12,399)
General government	82,822	5,610	---	---	(77,212)	---	(77,212)
Debt service	29,369	---	---	---	(29,369)	---	(29,369)
Total Governmental Activities	\$ 561,065	\$ 48,889	\$ 171,806	\$ ---	\$ (340,370)	\$ ---	\$ (340,370)
Business Type Activities:							
Water	\$ 175,708	\$ 207,123	\$ ---	\$ ---	\$ ---	\$ 31,415	\$ 31,415
Electric	990,796	1,143,415	---	---	---	152,619	152,619
Gas	542,024	593,714	---	---	---	51,690	51,690
Sewer	122,765	191,596	---	---	---	68,831	68,831
Garbage	259,233	129,564	---	---	---	(129,669)	(129,669)
Customer deposits	2,076	6,662	---	---	---	4,586	4,586
Total Business Type Activities	\$ 2,092,602	\$ 2,272,074	\$ ---	\$ ---	\$ ---	\$ 179,472	\$ 179,472
Total	\$ 2,653,667	\$ 2,320,963	\$ 171,806	\$ ---	\$ (340,370)	\$ 179,472	\$ (160,898)

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
General Receipts and Transfers:							
Property tax levied for general purposes					\$ 249,217	\$ ---	\$ 249,217
Other city tax					84,594	---	84,594
Unrestricted interest on investments					13,262	4,904	18,166
Miscellaneous					9,614	7,254	16,868
Interfund debt repayment					---	20,000	20,000
Sale of assets					---	7,500	7,500
Transfers					100,000	(100,000)	---
Total General Receipts and Transfers					\$ 456,687	\$ (60,342)	\$ 396,345
Change in Cash Basis Net Position					\$ 116,317	\$ 119,130	\$ 235,447
Cash Basis Net Position Beginning of Year					333,527	792,225	1,125,752
Cash Basis Net Position End of Year					\$ 449,844	\$ 911,355	\$ 1,361,199
Cash Basis Net Position:							
Restricted:							
Expendable:							
Debt service					---	\$ 21,797	\$ 21,797
Library					69,467	---	69,467
Streets					410,438	---	410,438
Emergency levy					3,615	---	3,615
Unrestricted (deficit)					(33,676)	889,558	855,882
Total Cash Basis Net Position					\$ 449,844	\$ 911,355	\$ 1,361,199

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

		Special Revenue			
	General	Road Use Tax	Library Foundation	Nonmajor	Total
Receipts:					
Property tax	\$ 249,217	\$ ---	\$ ---	\$ ---	\$ 249,217
Other city tax	84,594	---	---	---	84,594
Licenses and permits	2,310	---	---	---	2,310
Use of money and property	9,749	---	12,813	---	22,562
Intergovernmental	62,980	101,052	---	---	164,032
Charges for services	37,025	---	---	---	37,025
Special assessments	---	---	---	254	254
Miscellaneous	17,388	---	---	---	17,388
Total Receipts	\$ 463,263	\$ 101,052	\$ 12,813	\$ 254	\$ 577,382
Disbursements:					
Operating					
Public safety	\$ 216,780	\$ ---	\$ ---	\$ ---	\$ 216,780
Public works	120,565	---	---	---	120,565
Culture and recreation	98,007	---	1,123	---	99,130
Community and economic development	12,399	---	---	---	12,399
General government	82,822	---	---	---	82,822
Debt service	---	---	---	29,369	29,369
Total Disbursements	\$ 530,573	\$ ---	\$ 1,123	\$ 29,369	\$ 561,065
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (67,310)	\$ 101,052	\$ 11,690	\$ (29,115)	\$ 16,317
Other Financing Sources (Uses):					
Transfers in	\$ 100,000	\$ ---	\$ ---	\$ 15,000	\$ 115,000
Transfers out	(15,000)	---	---	---	(15,000)
Total Other Financing Sources (Uses)	\$ 85,000	\$ ---	\$ ---	\$ 15,000	\$ 100,000
Change in Cash Balances	\$ 17,690	\$ 101,052	\$ 11,690	\$ (14,115)	\$ 116,317
Cash Balances Beginning of Year	92,962	309,386	57,777	(130,156)	329,969
Cash Balances End of Year	\$ 110,652	\$ 410,438	\$ 69,467	\$ (144,271)	\$ 446,286
Cash Basis Fund Balances:					
Restricted for:					
Library	\$ ---	\$ ---	\$ 69,467	\$ ---	\$ 69,467
Streets	---	410,438	---	---	410,438
Emergency levy	3,615	---	---	---	3,615
Assigned for:					
Library	14,453	---	---	---	14,453
Police capital	465	---	---	---	465
Unassigned	92,119	---	---	(144,271)	(52,152)
Total Cash Basis Fund Balances	\$ 110,652	\$ 410,438	\$ 69,467	\$ (144,271)	\$ 446,286

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS, AND CHANGES IN CASH BALANCES TO
THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

Total governmental funds cash balances	\$ 446,286
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Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. A portion of the cash balances the Internal Service Funds are included in governmental activities in the Cash Basis Statement of Activities and Net Position.

3,558

Cash basis net position of governmental activities	\$ 449,844
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Change in cash balances	\$ 116,317
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Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. A portion of the change in the cash balances of the Internal Service Funds is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

Change in cash balance net position of governmental activities	\$ 116,317
---	------------

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**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Enterprise						Internal Service Funds
	Water	Electric	Gas	Sewer	Garbage	Nonmajor Customer Deposits	Total
Operating Receipts:							
Charges for services	\$ 207,123	\$ 1,143,415	\$ 593,714	\$ 191,596	\$ 129,564	\$ 6,662	\$ 2,272,074
Operating Disbursements:							
Salaries and wages	\$ 40,351	\$ 66,164	\$ 43,118	\$ 31,922	\$ 38,781	\$ ---	\$ 220,336
Employee benefits and costs	16,977	29,158	23,849	15,158	29,448	---	114,590
Staff development	818	181	4,048	418	---	---	5,465
Repairs, maintenance, and utilities	25,035	20,831	4,726	21,376	9,036	---	81,004
Contractual services	25,547	741,705	449,481	13,508	53,565	2,076	1,285,882
Commodities	18,496	57,098	15,585	17,248	5,390	---	113,817
Capital outlay	4,425	2,000	3,125	1,025	124,921	---	135,496
Total Operating Disbursements	\$ 131,649	\$ 917,137	\$ 543,932	\$ 100,655	\$ 261,141	\$ 2,076	\$ 1,956,590
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 75,474	\$ 226,278	\$ 49,782	\$ 90,941	\$ (131,577)	\$ 4,586	\$ 315,484
Non-Operating Receipts (Disbursements)							
Interest on investments	\$ 233	\$ 173	\$ 4,332	\$ 90	\$ 59	\$ 17	\$ 4,904
Miscellaneous	658	4,431	847	638	680	---	7,254
Repayment of interfund loan	---	---	20,000	---	---	---	20,000
Debt service	(45,967)	(75,567)	---	(24,018)	---	---	(145,552)
Net Non-Operating Receipts (Disbursements)	\$ (45,076)	\$ (70,963)	\$ 25,179	\$ (23,290)	\$ 739	\$ 17	\$ (113,394)
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 30,398	\$ 155,315	\$ 74,961	\$ 67,651	\$ (130,838)	\$ 4,603	\$ 202,090
							\$ 9,540

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

Enterprise

	Water	Electric	Gas	Sewer	Garbage	Nonmajor Customer Deposits	Total	Internal Service Funds
Operating Financing Sources:								
Sale of capital assets	\$ ---	\$ 7,500	\$ ---	\$ ---	\$ ---	\$ ---	\$ 7,500	\$ ---
Transfers out	---	(50,000)	(50,000)	---	---	---	(100,000)	---
Total Other Financing Sources (Uses)	\$ ---	\$ (42,500)	\$ (50,000)	\$ ---	\$ ---	\$ ---	\$ (92,500)	\$ ---
Changes in Cash Balances	\$ 30,398	\$ 112,815	\$ 24,961	\$ 67,651	\$ (130,838)	\$ 4,603	\$ 109,590	\$ 9,540
Cash Balances Beginning of Year	220,969	77,902	335,069	44,050	104,755	15,377	798,122	(2,342)
Cash Balances End of Year	\$ 251,367	\$ 190,717	\$ 360,030	\$ 111,701	\$ (26,083)	\$ 19,980	\$ 907,712	\$ 7,198
Cash Basis Fund Balances:								
Restricted for Debt Service	\$ 21,797	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 21,797	\$ ---
Unrestricted (deficit)	229,570	190,717	360,030	111,701	(26,083)	19,980	885,915	7,198
Total Cash Basis Fund Balances	\$ 251,367	\$ 190,717	\$ 360,030	\$ 111,701	\$ (26,083)	\$ 19,980	\$ 907,712	\$ 7,198

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS, AND CHANGES IN CASH BALANCES
TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

Total enterprise funds cash balances	\$ 907,712
---	------------

*Amounts reported for business type activities in the Cash Basis
Statement of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. A portion of the cash balances of the Internal Service Funds are included in business type activities in the Cash Basis Statement of Net Position.

3,643

Cash basis net position of business type activities	<div style="border-top: 1px dashed black; border-bottom: 3px double black;">\$ 911,355</div>
--	--

Change in cash balances	\$ 109,590
--------------------------------	------------

*Amounts reported for business type activities in the Cash Basis Statement of
Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. A portion of the change in the cash balance of the Internal Service Funds is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

9,540

Change in cash basis net position of business type activities	<div style="border-top: 1px dashed black; border-bottom: 3px double black;">\$ 119,130</div>
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**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies:

The City of Preston is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1890 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides, water, sewer, electric, gas, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Preston has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has one component unit which meets the Governmental Accounting Standards Board criteria, the Preston Volunteer Fire Department. This component unit has not been included in the City's financial statements.

Jointly Governed Organizations - The City participates in one jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board: Jackson County Sanitation Disposal Agency.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue, Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Special Revenue, Library Foundation Fund is used to account for donations which are restricted to use for the library.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric system.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

The Enterprise, Gas Fund accounts for the operation and maintenance of the City's gas system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Garbage Fund accounts for the operation and maintenance of the City's sanitation system.

The City also reports the following additional proprietary fund:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government, and debt service functions.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, the City had the following investments:

Type	Fair Value	Maturity
-----	-----	-----
Community Foundation of Greater Dubuque	\$ 69,467	N/A
	=====	

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 - Cash and Pooled Investments: (Continued)

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit Risk - The City's investment in the Community Foundation of Greater Dubuque is unrated.

Note 3 - Bonds and Notes Payable:

Annual debt service requirements to maturity for the City's indebtedness are as follows:

Year Ending June 30,	General Obligation Note		General Obligation Note		Revenue Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 4,532	\$ ---	\$ 7,437	\$ 2,400	\$ 40,000	\$ 16,065
2016	4,532	---	7,760	2,077	40,000	14,805
2017	4,532	---	8,098	1,740	40,000	13,545
2018	4,532	---	8,450	1,388	40,000	12,285
2019	4,532	---	8,816	1,020	40,000	11,025
2020-2024	17,370	---	17,232	876	200,000	36,225
2025-2029	---	---	---	---	120,000	6,615
Total	\$ 40,030	\$ ---	\$ 57,793	\$ 9,501	\$ 520,000	\$ 110,565

Year Ending June 30	Revenue Note		Other Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 36,000	\$ 9,560	\$ 25,000	\$ 3,188	\$ 112,969	\$ 31,213
2016	37,000	8,120	25,000	2,138	114,292	27,140
2017	39,000	6,640	25,000	1,075	116,630	23,000
2018	41,000	5,080	---	---	93,982	18,753
2019	42,000	3,440	---	---	95,348	15,485
2020-2024	44,000	1,760	---	---	278,602	38,861
2025-2029	---	---	---	---	120,000	6,615
Total	\$ 239,000	\$ 34,600	\$ 75,000	\$ 6,401	\$ 931,823	\$ 161,067

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 3 - Bonds and Notes Payable: (Continued)

Revenue Notes - The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$375,000 in water revenue notes issued in October 2010. Proceeds from the notes provided financing for improvements to the water system. The notes are payable solely from water customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 61 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$273,600. For the current year, principal and interest paid and total customer net receipts were \$45,967 and \$75,474, respectively.

The resolution providing for the issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the Water Fund, and the noteholders hold a lien on the future earnings of the fund.
- (b) Establish a Sinking Fund and make a monthly cash transfer equal to 1/6 of the installment of interest coming due on the next interest payment date plus 1/12 of the installment of principal coming due on the notes on the next succeeding principal payment date.

The City did comply with all of the provisions of the water notes during the year ended June 30, 2014.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$600,000 in electric revenue notes issued in June 2012. Proceeds from the notes provided financing for improvements to the electric system. The notes are payable solely from electric customer net receipts and are payable through 2027. Annual principal and interest payments on the notes are expected to require less than 28 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$630,565. For the current year, principal and interest paid and total customer net receipts were \$75,567 and \$210,448 respectively.

Note 4 - Pension and Retirement Benefits:

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 4 - Pension and Retirement Benefits: (Continued)

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012, were \$36,868, \$33,873 and \$32,856, respectively, equal to the required contributions for each year.

Note 5 - Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 8 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$467 for single coverage and \$1,231 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2014, the City contributed \$93,007 and plan members eligible for benefits contributed \$4,769 to the plan.

Note 6 - 28E Agreement:

On June 10, 2013, the City entered into a 28E Agreement with the City of Miles to provide police services to the City of Miles.

On August 1, 2013, the City entered into a 28E Agreement with the City of Spragueville to provide police services to the City of Spragueville.

Note 7 - Compensated Absences:

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2014, primarily relating to the General Fund, is \$7,361. The liability has been computed based on rates of pay as of June 30, 2014.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 8 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to -----	Transfer from -----	Amount -----
General	Enterprise:	
	Electric	\$ 50,000
	Gas	50,000

		\$100,000

Debt Service	General	\$ 15,000

		\$115,000
		=====

Transfers are used (1) to move resources from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, and (2) to move receipts from user fee generated funds to the general fund for certain administrative and other costs in the general fund.

Note 9 - Risk Management:

The City is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10 - Deficit Fund Balances:

The Special Assessment, Debt Service, and Garbage Funds had deficit fund balances of \$129, \$144,142 and \$26,083, respectively, at June 30, 2014 as a result of disbursements in excess of receipts. The deficits will be eliminated by future receipts and transfers.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 11 - Subsequent Events:

The City entered into a contract for engineering services for a street improvement project in the amount of \$80,600.

The City entered into a contract for computer software and training in the amount of \$39,900. The City anticipates receiving a \$25,000 grant toward the cost of the software.

The City issued a \$168,000 general obligation note for the purchase of a fire truck and to refund existing debt.

The City approved contracts to purchase equipment as follows:

Police vehicle	\$ 28,444
Dump truck	39,113
Tanker truck	110,250

The City's management has evaluated subsequent events and transactions for potential financial statement recognition and disclosure through February 5, 2015, the date the financial statements were available to be issued.

Note 12 – Prospective Accounting Change:

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

**OTHER
INFORMATION**

**CITY OF PRESTON
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2014**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 249,217	\$ ---	\$ ---	\$ 249,217	\$ 248,664	\$ 248,664	\$ 553
Other city tax	84,594	---	---	84,594	81,865	81,865	2,729
Licenses and permits	2,310	---	---	2,310	3,000	3,000	(690)
Use of money and property	22,562	4,904	---	27,466	12,000	12,000	15,466
Intergovernmental	164,032	---	---	164,032	275,600	275,600	(111,568)
Charges for services	37,025	2,282,074	10,000	2,309,099	2,013,083	2,283,083	26,016
Special assessments	254	---	---	254	283	283	(29)
Miscellaneous	17,388	27,254	---	44,642	127,000	157,000	(112,358)
Total Receipts	\$ 577,382	\$ 2,314,232	\$ 10,000	\$ 2,881,614	\$ 2,761,495	\$ 3,061,495	\$ (179,881)
Disbursements:							
Public safety	\$ 216,780	\$ ---	\$ ---	\$ 216,780	\$ 203,907	\$ 213,907	\$ (2,873)
Public works	120,565	---	---	120,565	155,550	155,550	34,985
Culture and recreation	99,130	---	---	99,130	84,765	92,765	(6,365)
Community and economic development	12,399	---	---	12,399	198,000	198,000	185,601
General government	82,822	---	---	82,822	59,925	71,925	(10,897)
Debt service	29,369	---	---	29,369	19,017	19,017	(10,352)
Business type activities	---	2,102,602	460	2,102,142	2,060,354	2,330,354	228,212
Total Disbursements	\$ 561,065	\$ 2,102,602	\$ 460	\$ 2,663,207	\$ 2,781,518	\$ 3,081,518	\$ 418,311

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2014**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 16,317	\$ 211,630	\$ 9,540	\$ 218,407	\$ (20,023)	\$ (20,023)	\$ 238,430
Other Financing Sources (Uses), Net	100,000	(92,500)	---	7,500	---	---	7,500
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ 116,317	\$ 119,130	\$ 9,540	\$ 225,907	\$ (20,023)	\$ (20,023)	\$ 245,930
Balances, Beginning of Year	329,969	795,780	(2,342)	1,128,091	1,132,622	1,132,622	(4,531)
Balances, End of Year	\$ 446,286	\$ 914,910	\$ 7,198	\$ 1,353,998	\$ 1,112,599	\$ 1,112,599	\$ 241,399

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO OTHER INFORMATION
BUDGETARY REPORTING
JUNE 30, 2014**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$300,000 and budgeted disbursements by \$300,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government, and debt service functions.

**SUPPLEMENTARY
INFORMATION**

SCHEDULE "1"

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Special Revenue -----		
	Special Assessments -----	Debt Service -----	Total -----
Receipts:			
Special assessments	\$ 254	\$ ---	\$ 254
Disbursements:			
Debt service	---	29,369	29,369
	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 254	\$ (29,369)	\$ (29,115)
Other Financing Sources (Uses):			
Transfers in	---	15,000	15,000
	-----	-----	-----
Change in Cash Balances	\$ 254	\$ (14,369)	\$ (14,115)
Cash Balances Beginning of Year	(383)	(129,773)	(130,156)
	-----	-----	-----
Cash Balances End of Year	\$ (129)	\$ (144,142)	\$ (144,271)
	=====	=====	=====
Cash Basis Fund Balances:			
Unassigned	\$ (129)	\$ (144,142)	\$ (144,271)
	=====	=====	=====

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES – INTERNAL SERVICE FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Shed Reserve	Insurance Reserve	Total
	-----	-----	-----
Operating Receipts:			
Charges for services	\$ 10,000	\$ ---	\$ 10,000
	-----	-----	-----
Operating Disbursements:			
Repairs, maintenance and utilities	\$ 93	\$ ---	\$ 93
Commodities	367	---	367
	-----	-----	-----
Total Operating Disbursements	\$ 460	\$ ---	\$ 460
	-----	-----	-----
Change in Cash Balances	\$ 9,540	\$ ---	\$ \$9,540
	-----	-----	-----
Cash Balances Beginning of Year	(7,864)	5,522	(2,342)
	-----	-----	-----
Cash Balances End of Year	\$ 1,676	\$ 5,522	\$ 7,198
	=====	=====	=====
Cash Basis Fund Balances:			
Unrestricted (deficit)	\$ 1,676	\$ 5,522	\$ 7,198
	=====	=====	=====

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE "3"

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Notes:									
Water	October 14, 2010	4.00%	\$ 375,000	\$ 274,000	\$ ---	\$ 35,000	\$ 239,000	\$ 10,967	\$ ---
Electric	June 13, 2012	3.15%	600,000	578,228	---	58,228	520,000	17,339	---
				\$ 852,228	\$ ---	\$ 93,228	\$ 759,000	\$ 28,306	\$ ---
General Obligation Notes:									
Fire truck	August 26, 2008	4.30%	109,000	\$ 79,441	\$ ---	\$ 21,648	\$ 57,793	\$ 3,189	\$ ---
Street lighting	April 8, 2013	0.00%	45,317	44,562	---	4,532	40,030	---	---
Total				\$ 124,003	\$ ---	\$ 26,180	\$ 97,823	\$ 3,189	\$ ---
Other Obligation:									
Sewer Fund - Interfund Loan	August 27, 2007	3.90-4.30%	\$ 210,000	\$ 95,000	\$ ---	\$ 20,000	\$ 75,000	\$ 4,018	\$ ---

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**BOND AND NOTE MATURITIES
JUNE 30, 2014**

Revenue Notes					
Year Ending June 30	Water		Electric		Total
	Issued October 14, 2010		Issued June 13, 2012		
	Interest Rates	Amount	Interest Rates	Amount	
2015	4.00%	\$ 36,000	3.15%	\$ 40,000	\$ 76,000
2016	4.00%	37,000	3.15%	40,000	77,000
2017	4.00%	39,000	3.15%	40,000	79,000
2018	4.00%	41,000	3.15%	40,000	81,000
2019	4.00%	42,000	3.15%	40,000	82,000
2020	4.00%	44,000	3.15%	40,000	84,000
2021		---	3.15%	40,000	40,000
2022		---	3.15%	40,000	40,000
2023		---	3.15%	40,000	40,000
2024		---	3.15%	40,000	40,000
2025		---	3.15%	40,000	40,000
2026		---	3.15%	40,000	40,000
2027		---	3.15%	40,000	40,000
Total		\$ 239,000		\$ 520,000	\$ 759,000

General Obligation Notes					Other Obligation		
Year Ending June 30	Street Lighting		Fire Truck		Total	Sewer	
	Issued April 8, 2013		Issued August 26, 2008			Issued August 27, 2007	
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount
2015	0.00%	\$ 4,532	4.30%	\$ 7,437	\$ 11,969	4.20%	\$ 25,000
2016	0.00%	4,532	4.30%	7,760	12,292	4.25%	25,000
2017	0.00%	4,532	4.30%	8,098	12,630	4.30%	25,000
2018	0.00%	4,532	4.30%	8,450	12,982		---
2019	0.00%	4,532	4.30%	8,816	13,348		---
2020	0.00%	4,532	4.30%	9,200	13,732		---
2021	0.00%	4,532	4.30%	8,032	12,564		---
2022	0.00%	4,532			4,532		---
2023	0.00%	3,774			3,774		---
Total		\$ 40,030		\$ 57,793	\$ 97,823		\$ 75,000

See accompanying independent auditor's report.

SCHEDULE "5"

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS**

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts:										
Property tax	\$ 249,217	\$ 227,268	\$ 216,937	\$ 209,685	\$ 206,282	\$ 174,342	\$ 147,711	\$ 146,562	\$ 136,435	\$ 134,029
Other city tax	84,594	82,236	82,026	67,223	66,672	66,509	65,914	65,542	56,045	55,086
Licenses and permits	2,310	2,775	3,165	8,400	7,022	7,069	7,007	6,060	10,708	2,710
Use of money and property	22,562	5,187	5,194	4,378	3,593	3,228	5,736	13,943	20,762	11,153
Intergovernmental	164,032	163,185	150,297	265,516	313,593	131,656	130,550	122,601	121,067	120,903
Charges for service	37,025	34,592	34,223	34,101	35,057	32,760	32,708	37,267	26,154	25,927
Special assessments	254	271	283	432	573	436	809	23,799	421	1,353
Miscellaneous	17,388	31,859	34,075	16,818	14,650	20,552	43,847	30,008	35,102	29,722
	<u>\$ 577,382</u>	<u>\$ 547,373</u>	<u>\$ 526,200</u>	<u>\$ 606,553</u>	<u>\$ 647,442</u>	<u>\$ 436,552</u>	<u>\$ 434,282</u>	<u>\$ 445,782</u>	<u>\$ 406,694</u>	<u>\$ 380,883</u>
Disbursements:										
Operating:										
Public safety	\$ 216,780	\$ 222,535	\$ 212,913	\$ 256,868	\$ 288,346	\$ 337,198	\$ 226,036	\$ 185,318	\$ 171,555	\$ 143,485
Public works	120,565	120,941	119,556	129,810	84,611	118,477	190,783	76,383	93,386	144,658
Health and social services	--	--	--	--	--	--	--	--	368	550
Culture and recreation	99,130	100,641	91,577	142,885	170,594	96,346	106,851	145,582	97,272	107,733
Community and economic development	12,399	9,316	7,417	15,183	14,002	6,926	7,579	14,639	10,816	18,489
General government	82,822	76,594	65,583	61,336	57,877	59,195	58,306	54,478	51,821	52,559
Debt service	29,369	21,633	21,303	21,710	22,130	22,554	13,136	13,567	14,003	14,412
Capital projects	--	--	--	--	--	--	--	457,744	--	--
	<u>\$ 561,065</u>	<u>\$ 551,660</u>	<u>\$ 518,349</u>	<u>\$ 627,792</u>	<u>\$ 637,560</u>	<u>\$ 640,696</u>	<u>\$ 602,691</u>	<u>\$ 947,711</u>	<u>\$ 439,221</u>	<u>\$ 481,886</u>

See accompanying independent auditor's report.

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 5, 2015. Our report expressed unmodified opinions on the financial statements of the various opinion units of the primary government which were prepared on the basis of cash receipts and disbursements and an adverse opinion on the discretely presented component unit due to the omission of the financial data for the City's legally separate component unit. Our report included a disclaimer of opinion on the other information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Preston's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Preston's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Preston's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Preston's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-14, I-B-14, and I-C-14 to be material weaknesses. Items I-A-14 and I-B-14 were noted in the prior year audit.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-D-14 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Preston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

In addition, we noted other matters involving its operation that we have reported to the management of the City of Preston in a separate letter dated February 5, 2015.

City of Preston's Responses to Findings

The City of Preston's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Preston's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Preston during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.

Dubuque, Iowa

February 5, 2015

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- I-A-14 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual at the City has custody of receipts and performs all recordkeeping and reconciling functions for the accounts. The result is that intentional or unintentional errors or unauthorized transactions could occur and not be detected in a timely manner.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. A council member should receive the bank statement each month and review its contents. This review should be documented by the council member initialing the statement.

Response - The City Council feels they have segregated duties to the extent possible with the existing personnel.

Conclusion - Response accepted.

- I-B-14 Adjusting Journal Entries - Several adjusting journal entries were proposed to management to represent a fair presentation of the financial statements. Significant adjustments were made to correct the fund balance of several funds. Misstatements in the financial statements could impair management and the City Council's ability to make informed decisions.

Recommendation - We recommend that the City implement procedures to reasonably assure that account balances are fairly stated.

Response - We will consider this.

Conclusion - Response accepted.

- I-C-14 Dual Signatures on Checks - The City currently has a policy requiring dual signatures on all checks. We noted several checks where only one of the required signatures was present. The result is that material disbursements could occur without proper authorization or oversight.

Recommendation - All checks should be reviewed for dual signatures before being issued, in accordance with the City's policy.

Response - We will take steps to ensure that all checks will have dual signatures in accordance with the City's policy.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to the Financial Statements: (Continued)

I-D-14 Document Approval of Time Cards - Timecards are not being signed by a supervisor. Failure to approve timecards could result in incorrect payment of overtime, holiday, sick, or vacation time.

Recommendation - Supervisors, who will be generally knowledgeable about their employees' attendance, hours, and work assignments during the pay period, should sign each time card indicating review and approval of hours worked by category. The review would determine that the employees have worked all of the recorded hours and that the allocation of time by category was appropriate and reasonable.

Response - We will implement these procedures.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

II-A-14 Certified Budget - Disbursements during the year ended June 30, 2014, exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-14 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-14 Business Transactions - No business transactions between the City and City officials or employees were noted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-E-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-14 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

The City Council went into closed session on February 11, 2014. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa.

Response - We will comply with the Code requirements for closed sessions.

Conclusion - Response accepted.

II-G-14 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-14 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

II-I-14 Financial Condition - The Special Revenue, Special Assessments Fund had a deficit balance of \$129; the Debt Service Fund had a deficit balance of \$144,142; and the Enterprise, Garbage Fund had a deficit balance of \$26,083 at June 30, 2014. The Special Revenue, Special Assessments Fund and the Debt Service Fund had deficit balances in the previous fiscal year. The deficit balance in the debt service fund continues to increase due to insufficient amounts being transferred in for the principal and interest payments due on the City's debt.

Recommendation - The City should continue to investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position. This could include other revenue sources, as well as reviewing the budget process for cost reductions. The City should also transfer funds as needed to the debt service fund to provide monies for the payment of general obligation debt.

Response - We will investigate ways to eliminate these deficits.

Conclusion - Response accepted.